June 1989 Monthly Survey July 7, 1989

Surveys of Consumers

Richard T. Curtin, *Director*

Consumer Confidence Maintained: Spending Plans Remain Cautious

Index Unchanged

The Index of Consumer Sentiment was 90.6 in the June 1989 survey, nearly identical to the 90.7 recorded in May. The overall stability resulted from small offsetting changes among income subgroups and among the attitude and expectation components of the Index. Consumer confidence declined among higher income families while confidence among lower income families strengthened; expectations about the future course of the economy improved slightly while consumer evaluations of their current financial situation weakened.

Among families with incomes of $40,000 or more, the Index fell to 95.4 in June from 100.3 in May, the lowest level recorded in more than one year.

The Index of Consumer Expectations, a component of the Index of Leading Indicators, rose to 82.0 in June from 80.1 in May. This was the first monthly increase to be recorded since the start of the year. The small June improvement still leaves the Expectations Index well below the 89.9 recorded in January 1989. The recent improvement was due to a small rebound in short-term outlook for the general economy.

Evaluations of current economic conditions weakened in the June survey. The Current Conditions Index fell to 104.1 in June from 107.1 recorded one month earlier and the 108.6 recorded one year earlier. The recent decline was mainly due to less favorable assessments by consumers of their current financial situation.

Cautious Optimism

The overall trends in consumer sentiment suggest the continued maintenance of a cautious optimism among consumers. Most consumers expect a slowdown in the pace of improvement in both their personal finances as well as for the economy as a whole. But few consumers expect their personal financial situation to worsen or the economy to slip into a recession during the year ahead.

This has made consumers more cautious in their outlook, but not pessimistic. Importantly, consumers continue to view employment prospects positively, and concerns with future trends in inflation and interest rates have eased significantly. While these data indicate that consumer sales will remain sluggish through the balance of the year, there is no indication that sharp cutbacks in purchases are now planned by consumers.

Institute for Social Research • P.O. Box 1248 • Ann Arbor, Michigan 48106-1248 • (313) 763-5224

Personal Finances Stagnate:
Income Gains Offset by Price Increases

In the June 1989 survey, fewer families reported that their financial situation had improved during the past year, and fewer families expected their financial situation to improve during the year ahead. Rather than a worsening financial situation, more families reported that their financial situation had remained the same as a year earlier. And considering changes in both incomes and prices, more families expected their financial situation to remain the same during the year ahead.

The proportion of families that reported an improved financial situation fell to 38 percent in the June 1989 survey from 45 percent one month earlier and 43 percent one year earlier. The proportion that reported an unchanged financial situation rose to 38 percent in June 1989 from 31 percent one month earlier and 32 percent one year earlier. A worsening financial situation was reported by 23 percent of all families in June 1989, just below the 24 percent recorded both one month and one year earlier.

An improved financial situation was expected by 34 percent of all families in the June 1989 survey, down from the 39 percent recorded both one month and one year earlier. A worsening financial situation was expected by just 11 percent of all families in the June 1989 survey, down from 14 percent in May. The majority of families expected their financial situation to remain unchanged in the June survey (52 percent, up from 45 percent in May).

Although as many families expected income increases in the June 1989 survey as either one month or one year earlier, the size of the expected increases were smaller. Overall, the proportion of families that expected their incomes to increase by as much or more than prices fell to 55 percent in June from 64 percent a year earlier. Rather than reflecting an acceleration in the expected inflation, these weakening real income prospects reflected a decline in the expected growth of nominal incomes.

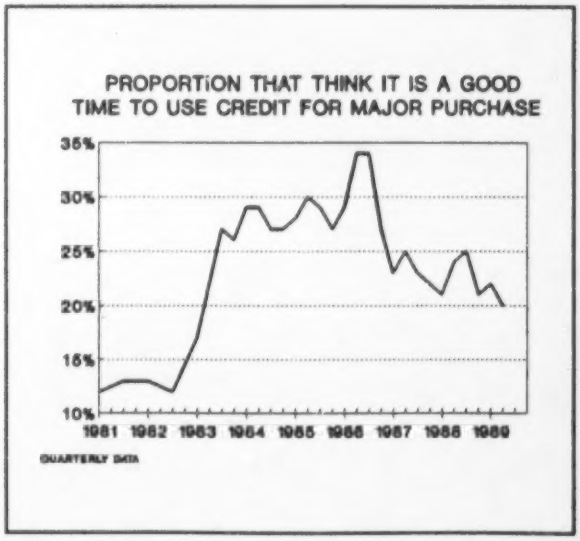
Inflation Expected to Ease

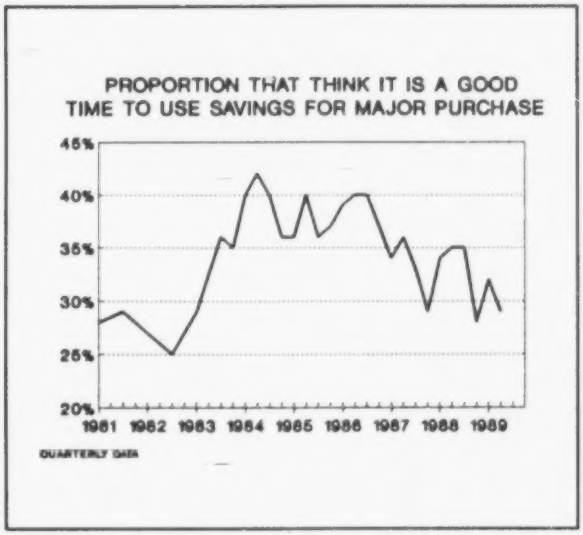
In the June 1989 survey, consumers expected the annual rate of inflation to average 5.0% during the year ahead. This was sharply below the 5.8% recorded in May and the 5.6% recorded in June 1988.

Cautious Spending Plans

The lack of improvement in personal finances has been reflected in more cautious spending plans. When asked whether they were reluctant to take on new debt or use accumulated savings to make large purchases, consumers have voiced an increasingly cautious outlook. Among all families in the June 1989 survey, 21 percent reported that they were not reluctant to buy on credit (see the chart below).

Willingness to use some of their accumulated savings in order to make a large purchase has also declined. In the June 1989 survey, 29 percent reported that they were not reluctant to use savings to make major purchases (see the chart on the next page).





Outlook for Economy:
Continued Slow Growth

The majority of families in the June 1989 survey expected the performance of the national economy to remain unchanged during the year ahead. Among the balance of families, slightly more expected the economy to improve during the year ahead rather than worsen (24 versus 17 percent) in the June survey. This represented an improvement from one month earlier, when fewer families expected the economy to improve than to worsen (19 versus 22 percent).

The majority of families in the June 1989 survey expected the national unemployment rate to remain largely unchanged during the year ahead. Compared with a year ago, somewhat fewer families expected further declines (10, down from 15 percent), and fewer families expected increases (29, down from 31 percent).

Overall, good times financially in the country as a whole were expected by 48 percent of all families in the June 1989 survey, up from the 46 percent recorded one month earlier but still below the 54 percent recorded one year earlier.

While consumers continue to expect the economy to avoid a recession during the year ahead, nearly half expected bad times financially in the country as a whole during the next five years or so (47 percent).

Interest Rate Expectations
Post Significant Improvement

The proportion of families that expected interest rate increases during the year ahead fell to 54 percent in the June 1989 survey, down from 64 percent one month earlier and 75 percent two months earlier. The proportion that expected interest rate declines rose to 19 percent in June, from 7 percent two months earlier. Although the June reading was the most favorable in more than a year, interest rate expectations are still unfavorable and continue to exert a negative impact on purchase intentions.

Home Buying Attitudes
Remain Unchanged

Favorable home buying attitudes were held by 61 percent of all families in the June 1989 survey, unchanged from the month earlier reading. Although the recent declines in mortgage interest rates did help to improve home buying attitudes, less favorable perceptions of prices left overall home buying attitudes unchanged.

Favorable references to home prices were reported by 17 percent of all families in the June 1989 survey, down from 22 percent in May, while complaints about high home prices rose to 16 from 13 percent.

Among all families, 22 percent favorably mentioned the recent declines in mortgage rates, up from 16 percent in May, while complaints about high rates fell to 23 from 25 percent. Overall, mortgage interest rates continued to have a negative influence on home buying attitudes, and represent the major factor for the overall weakness in the housing market compared with one or two years earlier.

Vehicle Buying Attitudes

Vehicle buying attitudes edged downward in the June survey from the levels recorded in the Spring. Favorable attitudes toward buying conditions for vehicles were held by 61 percent of all families in the June 1989 survey, down from 63 percent in May and 65 percent in April.

Household Durables

Favorable attitudes toward buying conditions for furniture, appliances, and home electronic goods were held by 71 percent of all families in the June 1989 survey, just below the 73 percent recorded one month earlier and the 74 percent recorded one year earlier. These positive buying attitudes continue to be based on the availability of price discounts, reported by 30 percent of all families in the June survey, unchanged from one year ago.

* * *

The June 1989 survey included 507 completed interviews conducted between June 1 and June 29, 1989.